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February 19, 2008

## **AGENDA ITEM 5**

**TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE**

- I. SUBJECT:** Changes in Performance Plans of Investment Management Positions in Inflation-Linked Asset Class
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** Recommend the Board Approve Changes in the Performance Plans of the Senior Investment Officer, Alternative Investments, Senior Investment Officer, Fixed Income, and Senior Investment Officer, Real Estate

### **IV. ANALYSIS:**

The Compensation Policies and Procedures provide that at the end of every quarter in the fiscal year, each covered executive prepares a short status report informing the committee of progress toward achieving the quantitative and qualitative measures in their performance plans. If needed, performance measures may be added, amended or deleted as part of the quarterly review process.

The purpose of this item is to present changes related to the Inflation-Linked Asset Class (ILAC) in the performance plans of three Senior Investment Officers. In addition, we are presenting for information, the corresponding changes to the performance plans of one Senior Portfolio Manager and one Portfolio Manager.

### **Background**

In September 2007, the Investment Committee approved an ILAC Pilot Program comprised of Commodities, Inflation-Linked Bonds, Infrastructure and Forestland, as well as the reclassification of existing investments into the ILAC. In December 2007, the Investment Committee adopted an asset allocation policy establishing the ILAC allocation target of up to 5%. In addition, the Investment Committee stipulated that new investments in these programs will be subject to approval of a governing investment policy, appropriate delegations, development of organizational structures and alignment of performance plans. This item addresses the alignment of investment manager performance plans impacted by the establishment of the ILAC.

In compliance with the Statement of Investment Policy for the ILAC presented to the Investment Committee today, February 19, 2008, all existing assets of the ILAC are under the direct or delegated investment management of the Senior Investment Officer, Asset Allocation/Risk Management.

The performance plan for Farouki Majeed, Senior Investment Officer, Asset Allocation/Risk Management, was presented as a new plan for first reading during the December 14, 2007, Performance and Compensation Committee meeting. The plan is being presented for second reading in Agenda Item 6 and therefore, is not submitted under this agenda item.

At this time, the performance plans for five investment managers are affected by the adoption and implementation of the new ILAC. The proposed changes are detailed on the attachments to this agenda item:

- The changes in the performance plans of the Senior Investment Officers (excluding the SIO, Asset Allocation/Risk Management) affected by the establishment of the ILAC.
- As stated in the program policies and procedures, the Chief Executive Officer has delegated authority to approve changes in performance plans of Senior Portfolio Managers and Portfolio Managers. As such, the approved changes to the Senior Portfolio Manager and Portfolio Manager performance plans affected by the adoption of the ILAC are presented for information.

In accordance with the program policies and procedures, proposed changes of these quantitative measures have been reviewed for clarity by Wilshire Associates, the Board's investment consultant. The incumbents have been made aware of the changes.

In addition, it should be noted that additional staff will be hired to implement the forestland and infrastructure components. At that time, the performance plans for those new staff will be developed and provided to the Committee as appropriate.

## **V. STRATEGIC PLAN:**

Under Goal V of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

**VI. RESULTS/COSTS:**

The establishment of incentive plan performance measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

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Chris O'Brien, Chief  
Human Resources Division

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Gloria Moore Andrews  
Deputy Executive Officer - Operations

Attachments

## **Changes in Performance Plans of Investment Management Positions in Inflation-Linked Asset Class**

Change Request forms for the Senior Investment Officers are presented in the following order:

<u>Position</u>	<u>Current Incumbent</u>
Senior Investment Officer, Alternative Investments	Leon Shahinian
Senior Investment Officer, Fixed Income	Curtis Ishii
Senior Investment Officer, Real Estate	Ted Eliopoulos